



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**


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J. TYLER McCAULEY
AUDITOR-CONTROLLER

December 12, 2006

REVISED

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller 

SUBJECT: **PERSONAL INVOLVEMENT CENTER CONTRACT COMPLIANCE
REVIEW – MENTAL HEALTH AND CHILDREN & FAMILY SERVICE
PROVIDER**

We have completed a contract compliance review of Personal Involvement Center (PIC or Agency), a Department of Mental Health (DMH) and Department of Children & Family Services (DCFS) service provider. The review was requested jointly by DMH and DCFS.

Background

DMH and DCFS contract with PIC, a private, non-profit, community-based organization, which provides services to clients countywide. DMH contracts with PIC to provide Mental Health services, which includes interviewing program participants, assessing their mental health needs, and developing and implementing a treatment plan. DCFS contracts with PIC to provide Family Preservation Program (FPP) services. PIC's headquarters is located in the Second District.

DMH paid PIC a provisional rate of \$132 for each day that a client participated in its Day Rehabilitation program. DMH also paid between \$1.09 and \$3.38 per minute of staff time (\$65.40 to \$202.80 per hour) for other services. However, PIC is ultimately reimbursed for its costs reported at year end. DMH contracted with PIC to provide approximately \$1.2 million in services for Fiscal Year (FY) 2005-06.

DCFS paid PIC based upon a base rate of \$1,050 per family and an additional \$20 to \$70 per hour for supplemental services. DCFS paid PIC \$1.5 million for FPP services for FY 2005-06.

"To Enrich Lives Through Effective and Caring Service"

Purpose/Methodology

The purpose of the review was to determine whether PIC provided the services outlined in their DMH and FPP contracts with the County. Our monitoring visit included a review of PIC's accounting records and supporting documentation to support the Contractor's compliance with fiscal requirements of its DMH and FPP contracts. We also selected a sample of PIC's Mental Health billings, participant charts, and personnel and payroll records to review PIC's compliance with DMH program requirements. In addition, we interviewed staff from PIC and interviewed a sample of Mental Health participants' parents and guardians.

Results of Review

PIC did not maintain appropriate internal controls and accurate accounting records to ensure that program assets were safeguarded and that funds were used in accordance with program requirements. For example, the Agency did not maintain documentation to support 12 (35%) of the 34 transactions sampled. The undocumented transactions totaled \$13,505. We also identified expenditures totaling \$23,331 that were not allowed by the contract.

PIC also did not maintain sufficient working capital to pay its bills which limits its financial viability. Specifically, we noted:

- As of February 28, 2006, the Agency's accounting records reported a negative \$64,000 cash balance and current liabilities of \$404,000.
- The Agency's FY 2004-05 audited Financial Statements were issued in August 2006. The financial statements should have been issued by March 31, 2006. The Agency's accounting firm indicated that the delay in issuing the report was due to the Agency's inaccurate accounting records.
- PIC issued 58 checks payable to cash totaling \$197,500 from July 1, 2005 through February 28, 2006, which the County contract does not allow.
- PIC owes the IRS \$136,000 for payroll taxes that were due in December 2005.
- PIC paid a total of \$615 in Non-Sufficient Funds fees from December 2005 through February 2006.
- PIC transferred funds between programs to resolve cash flow issues.

In addition, the Agency allocated expenses based on each program's available funding and not on actual expenses incurred by each program. For example, the Agency

charged 100% of its employees' health insurance premiums and staff cell phone costs to DMH even though 69% of the staff worked exclusively on non-DMH programs.

The areas of non-compliance noted in this review are significant and indicate that the Agency needs to make substantial procedural changes in order to comply with the County contract. Several deficiencies noted in this report also were noted in prior audit reports. Agency management indicated a commitment to correcting the deficiencies and has recently hired an accounting consultant/bookkeeper to assist the Agency with this effort. In six months, we plan to perform a follow-up review to evaluate the Agency's efforts to implement the recommendations contained in this report and to determine whether the County should continue contracting with this Agency.

We have attached the details of our review along with additional deficiencies and recommendations for corrective action.

Review of Report

We discussed the results of our review with PIC on July 20, 2006 and on September 14, 2006. In their attached response, PIC describes the implemented or planned corrective actions to address most of the recommendations in our report. PIC needs to ensure that they develop corrective action plans to address the remaining recommendations in our report.

PIC also indicated that they subsequently provided documentation to support the undocumented and disallowed expenses noted in our report. However, in most instances, the documentation did not support the billings, which was explained to the Agency.

We thank PIC management for their cooperation and assistance during this review. We will provide your Board with the results of our follow-up review. Please call me if you have any questions, or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC
Attachment

c: David E. Janssen, Chief Administrative Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Patricia S. Ploehn, Director, Department of Children and Family Services
Jerry Gash, CEO, Personal Involvement Center
Public Information Office
Audit Committee

**COUNTYWIDE CONTRACT MONITORING DIVISION
MENTAL HEALTH AND FAMILY PRESERVATION PROGRAM
CONTRACT COMPLIANCE REVIEW
FISCAL YEAR 2005-2006
PERSONAL INVOLVEMENT CENTER, INC.**

FINANCIAL VIABILITY

Objectives

Determine whether Personal Involvement Center, Inc. (PIC) is financially viable and maintains sufficient working capital to sustain the cost of the programs.

Verification

We interviewed the Agency's management and reviewed the Agency's financial records, cash flow, liabilities and earnings.

Results

PIC did not maintain sufficient working capital to pay its bills which limits its financial viability. Specifically, we noted:

- As of February 28, 2006, the Agency's accounting records reported a negative \$64,000 cash balance and current liabilities of \$404,000.
- The Agency's Fiscal Year (FY) 2004-05 audited Financial Statements were issued in August 2006. The financial statements should have been issued by March 31, 2006. The Agency's accounting firm indicated that the delay in issuing the report was due to the Agency's inaccurate accounting records.
- As of March 15, 2006, PIC owed the Internal Revenue Service \$70,000 for payroll taxes that should have been paid between 1999 and 2002. PIC subsequently negotiated an installment agreement with the IRS and recently paid the full amount. However, PIC also negotiated a second installment agreement with the IRS for \$168,000 in payroll taxes that were due in December 2005. PIC currently owes \$136,000 to the IRS for this agreement.
- PIC paid a total of \$615 in Non-Sufficient Funds fees from December 2005 through February 2006.
- As noted in the Cash Section, PIC transferred program funds between programs due to cash flow issues experienced in some programs.

Recommendations**PIC management:**

1. **Submit a plan to the Department of Mental Health and the Department of Children and Family Services to improve its financial condition that includes maintaining sufficient working capital to pay its bills.**
2. **Develop a plan to pay its installment agreement with the IRS using non-County funds.**
3. **Maintain accurate accounting records.**

COST ALLOCATION PLAN**Objectives**

Determine whether the Agency's cost allocation plan was prepared in compliance with the County contract and that expenditures were properly allocated to the appropriate programs.

Verification

We reviewed the Agency's cost allocation plan and reviewed a sample of expenditures charged to the MHP and FPP from July 2005 to February 2006.

Results

The cost allocation plan developed by the Agency did not provide sufficient detail to ensure that program costs were allocated to the appropriate programs. As a result, the Agency did not allocate costs using a systematic approach to ensure each program received the appropriate expenses. For example, the Agency charged 100% of its employees' health insurance premiums and staff cell phone costs to the Department of Mental Health (DMH) through PIC's Mental Health Program (MHP), even though 69% of the staff worked exclusively on other programs. In addition, several of the Agency's staff worked on both the MHP and Family Preservation Program (FPP). However, 100% of their salaries were charged to either the MHP or FPP and not appropriately allocated to the programs based on the actual time worked.

PIC also did not appropriately allocate utility costs among all programs. The Agency allocated 95% of the utility costs to the MHP. The Agency should have allocated 63% to MHP and 37% to FPP.

The Agency's bookkeeper indicated that costs are allocated to the program with available cash. As a result, the County programs are charged a disproportionate amount of expenses.

Recommendations

PIC management:

- 4. Develop a detailed cost allocation plan.**
- 5. Allocate costs to each program on a monthly basis in accordance with the detailed cost allocation plan.**
- 6. Review FY 2004-05 and 2005-06 costs charged to all programs to ensure all costs were appropriately allocated to each program and resolve the billing discrepancies with the appropriate County department.**

INTERNAL CONTROLS

Objective

Determine whether the contractor maintained sufficient internal controls over its business operations.

Verification

We interviewed Agency personnel and tested transactions in various areas such as cash, expenditures, personnel and payroll.

Results

Overall, PIC did not maintain sufficient internal controls over its business operations to ensure that program assets were safeguarded and that MHP and FPP funds were used in accordance with the program requirements. Specifically:

Cash

- The bank reconciliations were prepared by staff that have check writing and other cash handling responsibilities.
- The staff that prepared the bank reconciliations did not sign them. In addition, the bank reconciliations were not approved by a supervisor.
- PIC replaced an NSF check without obtaining the original check from the payee or stopping payment on the check. In addition, PIC did not record the voided check in

the check register or void the original expenditure in their accounting records. As a result, PIC's accounting records overstated the Agency's actual expenditures.

Expenditures

- Expenditures are not approved prior to processing them.
- Seventeen (68%) of 25 invoices or receipts reviewed were not marked paid to prevent duplicate payments.
- Three (9%) of 34 expenditures reviewed were not charged to the appropriate expenditure accounts.
- PIC issued 58 checks payable to cash totaling \$197,500 from July 1, 2005 through February 28, 2006, which the County contract does not allow.
- PIC provides 50 employees with cellular phones. However, the Agency does not have a written policy regarding the use of cellular phones.

Payroll

- Employee timecards are not always signed by the employee's supervisor to certify the accuracy of the reported time.

Recommendations

PIC management:

- 7. Establish adequate separation of duties over the handling of cash.**
- 8. Ensure that bank reconciliations are reviewed and approved by a manager that does not have cash handling responsibilities.**
- 9. Ensure that all voided checks are accounted for and recorded in the accounting records.**
- 10. Ensure that expenditures are pre-approved by management.**
- 11. Require that invoices or receipts are marked "paid" to prevent duplicate payments.**
- 12. Do not issue checks payable to cash.**
- 13. Develop a policy regarding the use of cellular phones.**

14. Ensure timecards are signed by the employee and approved in writing by supervisory personnel.

CASH

Objectives

Determine whether cash receipts are properly recorded in the Agency's records and deposited timely in the Agency's bank accounts. Determine whether bank reconciliations are prepared and open reconciling items are valid and cleared in a timely manner.

Verification

We reviewed the bank reconciliations prepared by PIC for their five bank accounts. We traced the beginning general ledger balance to the previous month's ending balance. We also reviewed 27 electronic fund transfers and selected a sample of 37 debits and 36 credits from the December 2005 and January 2006 bank statements, and traced and agreed the amounts to the Agency's financial records.

Results

The Agency does not always prepare monthly reconciliations for each bank account. In addition, the reconciliations prepared by the Agency contained a number of errors and incorrect information. As a result, the reconciliations did not provide an accurate reflection of the Agency's use of County funds. Specifically, we noted the following:

- The Agency did not reconcile two (25%) of the five bank accounts since August 2005.
- The beginning general ledger balance listed on four (80%) of the five bank accounts did not agree with the balance reported in the Agency's accounting records, as noted in the following chart.

Account	Period	General Ledger Balance per Reconciliation	General Ledger Balance per Accounting Records	Variance
MHP General	12/31/2005	\$ (31,904.79)	\$ (16,936.59)	\$ 14,968.20
	1/31/2006	38,977.40	38,977.40	-
MHP Payroll	12/31/2005	(21,394.18)	(3,044.29)	18,349.89
	1/31/2006	(16,956.59)	(1,106.70)	15,849.89
FPP General	8/31/2005	(17,391.00)	(17,391.00)	-
FPP Payroll	8/31/2005	462.35	(28,994.87)	(29,457.22)
PIC General	12/31/2005	(2,282.31)	(113.73)	2,168.58
	1/31/2006	518.26	2,686.74	2,168.48

- The beginning general ledger balance indicated on one bank reconciliation did not agree with the previous month's ending general ledger balance.
- The reconciliations for three (60%) of the five bank accounts included a total of eight outstanding checks totaling \$26,745. However, the checks had cleared the bank. In addition, one electronic fund transfer for \$20,000 was listed as outstanding but the transfer had already cleared the bank.
- An adjusting entry posted to the general ledger for \$13,311 was incorrectly listed as a reconciling item to the bank balance.

In addition, the Agency made numerous wire transfers between bank accounts but did not properly record the transactions.

- Fifteen of 27 electronic transfers sampled involve transferring funds between programs which is not allowed. The Agency indicated the transfers occurred due to cash flow problems experienced in some programs. However, 13 (87%) of the 15 electronic transfers between programs totaling \$32,300 were not recorded accurately in the Agency's accounting records to track the amounts owed to each program to ensure that borrowed funds were returned to the appropriate program.
- One electronic fund transfer for \$2,500 was not recorded in PIC's accounting records.

Recommendations

PIC management:

15. **Ensure that bank reconciliations are completed properly and in a timely manner.**
16. **Ensure that all financial transactions are properly recorded in the Agency's accounting records.**
17. **Do not use specific program funds to fund activities in other programs.**

EXPENDITURES

Objectives

Determine whether program related expenditures are allowable under the County contract, properly documented, and accurately billed.

Verification

We reviewed the supporting documentation for 34 expenditures (19 MHP, 11 FPP and 4 charged to overhead). The expenditures sampled totaled \$108,460 (28%) from a total of \$381,929 in expenditures from July 1, 2005 through February 28, 2006.

Results

The Agency did not maintain documentation for 12 (35%) of the 34 transactions sampled. The undocumented transactions totaled \$13,505. Specifically, we noted the following:

- Three expenditures totaling \$2,600 relate to checks made payable to cash but the Agency could not provide documentation at the time of our review to support the expenditures. Management explained that the funds were used to purchase fuel for the vans used to transport DMH and DCFS clients. The Agency subsequently provided a number of receipts that they claimed supported the fuel purchases. However, the receipts totaled only \$2,261 and did not indicate the funds from the three checks were used to pay the expenditures. Therefore, we cannot rely on the documentation.
- Three expenditures totaling \$1,675 related to PIC reimbursing employees for various expenditures. However, PIC did not provide invoices or receipts to support the expenditures.
- The Agency did not provide documentation to support one expenditure for \$4,000.
- The Agency indicated that one expenditure for \$560 related to building security. However, the Agency did not provide an invoice or description of the service performed.
- The Agency indicated that one expenditure for \$400 was paid to a PIC employee for vehicle maintenance. However, PIC did not provide an invoice or description of the service performed.
- Two expenditures totaling \$3,566 were supported by a copy of an invoice not the original invoice.
- The invoice for one expenditure for \$704 for consultant services did not describe the services that were performed and the Agency did not provide an agreement with the company.

The Agency also used program funds totaling \$23,331 to pay for unallowable expenditures. Specifically, we noted the following:

- PIC charged maintenance expenses to the MHP (\$18,054) and FPP (\$125) even though the lease agreement with the Church includes maintenance fees.
- PIC charged the MHP \$52,000 in rent for FY 2004-05 even though the lease agreement only required \$48,000. On September 14, 2006, PIC stated that the additional \$4,000 was related to rent paid for June 2004. However, the documentation they provided was insufficient.
- PIC paid \$615 in Non-Sufficient Funds fees.
- One check totaling \$537 was to reimburse an employee for a staff birthday luncheon and food provided at staff meetings.

Recommendations

PIC management:

18. **Maintain original invoices/receipts to support program expenditures.**
19. **Repay the County \$36,836 for undocumented and unallowable expenses identified in our report.**

PAYROLL AND EMPLOYEE BENEFITS

Objectives

Determine whether the payroll and employee benefits expenses were for actual employees, charged to the appropriate program and documented in accordance with the County contract.

Verification

We selected a sample of 26 employees from the payroll register and traced and agreed the information to staff timecards. We also interviewed each staff and reviewed their personnel files.

Results

All 26 staff reviewed were employed by the Agency. However, we noted several areas where the Agency did not comply with the County contracts.

- The Agency's timecards did not separate the amount of time spent on each program for 14 (54%) of 26 staff who worked on multiple programs. As a result, PIC was unable to accurately determine the payroll expense for each program.

- At the time of our review, the Agency did not provide timecards for four (15%) of 26 staff.

The Agency paid \$1,210 in January 2006 for health insurance coverage for four individuals that were no longer employed by the Agency as noted in the following chart. As a result, PIC should calculate the total amount paid for employee benefits subsequent to each employee's termination date and repay the County for any over paid amounts.

Former Employee	Employment Termination Date
#1	8/14/2001
#2	8/14/2004
#3	7/19/2005
#4	12/23/2005

Recommendations

PIC management:

20. Ensure that payroll expenses are allocated to the appropriate program.
21. Ensure employees report on their timecards the total hours worked on each program.
22. Ensure timecards are maintained for all employees.
23. Ensure that the County is billed only for insurance benefits provided to actual employees in accordance with program requirements.
24. Calculate the total amount the County was incorrectly billed for the health insurance benefits provided to the four terminated employees and repay the County.

BUILDING LEASE

Objectives

Determine whether the building lease amounts charged to each program is appropriate and properly recorded in accounting records. In addition, determine whether the amount charged complies with OMB Circular A122 requirements.

Verification

We reviewed PIC's lease agreements with the Praises of Zion Church (Church or lessor) and compared the MHP and FPP lease amounts to the Agency's financial records. We also evaluated the relationship between the lessor and lessee.

Results

At the time of our review, PIC's Chief Executive Officer (CEO) was also the Church's Senior Pastor. The Church charged PIC's MHP and FPP a flat monthly rate of \$6,228 and \$5,500, respectively for the use of office space in FY 2005-06. PIC management explained that these amounts were based upon a recent market rate study. However, OMB Circular A122 states that "less-than-arms-length" lease transactions must be made through depreciation, or use allowance at an annual rate not exceeding two percent of acquisition cost. This same issue was addressed in a previous audit report issued on March 13, 1999 by the County of Los Angeles, Department of Auditor-Controller's Audit Division.

The OMB Circular A122 states that a "less-than-arms-length" lease includes those between non-profit organizations under common control through common officers, directors, or members. However, the Church's Senior Pastor indicated that he is merely a "spiritual advisor" and does not have control or substantial influence over the Church's operations. PIC has agreed to work with the Auditor-Controller and provide information necessary to determine whether PIC's CEO had control or substantial influence over the operations of its lessor. Subsequent to our review, PIC management indicated that their board appointed a new CEO and the lessor reduced the monthly lease charge to PIC for office space.

Recommendation

- 25. PIC management work with the Auditor-Controller to determine whether the amount charged for leasing office space was appropriate for Fiscal Year 2005-06 and prior contract years.**

FIXED ASSETS AND EQUIPMENT**Objectives**

Determine whether fixed assets and equipment purchased with DMH and DCFS funds actually exist and are used for the MHP and FPP. In addition, determine whether the Agency properly safeguards the assets and equipment.

Verification

We interviewed staff and requested a list of equipment and fixed assets. We also determined the owner of record for a sample of three vehicles (two vehicles included in

the FY 2004-05 Trial Balance and one vehicle purchased during FY 2005-06). In addition, we evaluated the vehicle's use.

Results

- PIC did not maintain a list of equipment and fixed assets, as required. As a result, the Agency does not adequately safeguard the assets purchased with County funds. For example, the Agency was unable to locate one recently purchased computer monitor.
- The Agency's CEO indicated that he drives a 2002 Cadillac for business and personal use. He also indicated that he paid for this vehicle with his personal funds. However, PIC's accounting records include the 2002 Cadillac as an asset. Management indicated that their accountant erroneously included this vehicle as a PIC asset.

Recommendations

PIC management:

26. **Maintain a listing of the Agency's fixed assets and equipment including description, unique identifier, assigned individual and the program where the asset is used.**
27. **Remove the 2002 Cadillac from the Agency's financial records and reimburse the County for any depreciation that was billed to the County.**

REVENUE

Objectives

Determine whether the revenue received from DCFS and DMH were deposited into the Agency's bank accounts in a timely manner and recorded in their accounting system. Determine whether the Agency records revenue and cash flow advances accurately.

Verification

We traced and agreed the payments made by the DCFS FPP and DMH to the Agency's FPP and MHP bank statements and accounting records for FY 2005-06. In addition, for FY 2004-05 we traced and agreed the total amount paid by DCFS FPP and DMH to the Cost Report and the Agency's accounting records.

Results

The Agency properly deposited the County revenue in the appropriate bank accounts in a timely manner. In addition, these payments were appropriately recorded in the Agency's accounting records.

Recommendation

There are no recommendations for this section.

BILLED SERVICES**Objective**

Determine whether PIC provided the services billed in accordance with their contract with DMH.

Verification

We judgmentally selected 4,088 minutes from 75,782 service minutes of approved Medi-Cal billings to DMH. We reviewed the Progress Notes and Client Care Plans maintained in the clients' charts. The 4,088 minutes represent services provided to 29 program participants. We also reconciled 820 minutes to the clients' charts. The minutes related to multiple billings for the same client for the same services on the same day.

Although we started our review in February 2006, the most current billing information available from DMH's billing system was September and October 2005.

Results

PIC over billed DMH for 247 (6%) of the 4,088 service minutes sampled. The amount of the over billings totaled \$430. Specifically, we noted the following:

- The Agency did not provide documentation to support 107 (3%) minutes in our sample of billings.
- The Agency billed DMH 140 (3%) minutes at a rate higher than the contract allows.

PIC also did not sufficiently document 639 (16%) of the 4,088 service minutes sampled. For example, we noted the following:

- The Agency billed 112 minutes in which more than one staff was present during an intervention but the Progress Notes did not describe the specific contribution of each staff person.

- The Agency billed 337 minutes for Mental Health Services (MHS) where the Progress Notes did not describe what the client or service staff attempted and/or accomplished towards the client's goals.
- The Agency billed 467 minutes for MHS where the Progress Notes did not describe Assessment, Therapy, Rehabilitation, Collateral or Plan Development, as required by the contract.

The total number of insufficiently documented minutes cited above exceeded the number of insufficiently documented minutes reviewed because some of the Progress Notes contained more than one deficiency.

In addition, the Agency did not maintain effective controls to detect billing discrepancies. Specifically, PIC did not detect 330 minutes in which DMH processed the same minutes twice. The amount over paid for these minutes totaled \$700.

Assessments and Client Care Plans

PIC completed an Assessment for each client sampled. However, the charts did not contain an Annual Assessment Update for 2 (7%) of 29 clients sampled, as required by the contract. An Assessment is a diagnostic tool used to document the clinical evaluation of each client and establish the client's mental health treatment needs. An Annual Assessment Update verifies that services to the client continue to be necessary.

PIC did not complete the Client Care Plans for 21 (72%) of 29 clients sampled in accordance with the County contract. The Client Care Plan establishes goals and interventions that address the Mental Health issues identified in the client's Assessment. Specifically, we noted that:

- Six Client Care Plans did not contain a goal for each type of treatment provided.
- Seventeen Client Care Plans were not signed by the participant or legally responsible adult.

The number of Client Care Plans in the examples above exceeds the overall number of Client Plans because some of the Client Care Plans contained more than one deficiency.

Recommendations

PIC management:

- 28. Maintain sufficient documentation to support its compliance with contract requirements for the services billed to DMH.**
- 29. Enhance controls to detect and correct billing errors.**

30. Repay DMH \$1,130 for the amount over paid.
31. Ensure that Annual Assessment Updates are completed.
32. Maintain a current Client Care Plan for each service billed and ensure that it includes the client and parent/guardian's signature(s).

CLIENT VERIFICATION

Objective

Determine whether the program participants received the services that PIC billed DMH.

Verification

We interviewed eight clients that PIC billed DMH for services during September and October 2005.

Results

The eight program participants interviewed stated that they received services from the Agency and the services met their expectations.

Recommendation

There are no recommendations for this section.

STAFFING LEVELS

Objective

Determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section, as the Agency does not provide services that require staffing ratios.

STAFFING QUALIFICATIONS

Objective

Determine whether PIC's treatment staff possessed the required qualifications to provide the services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 19 of 22 PIC treatment staff for documentation to confirm their qualifications.

Results

Each staff in our sample possessed the qualifications required to deliver the services billed.

Recommendation

There are no recommendations for this section.

SERVICE LEVELS**Objective**

Determine whether PIC's reported service levels varied significantly from the service levels identified in the DMH contract.

Verification

We obtained the Cost Report submitted to DMH by PIC for FY 2004-05 and compared the dollar amount and billed units of service to the contracted units of service identified in the contract for the same period.

Results

PIC operated within its overall contract amount. The Agency's Cost Report submitted to DMH indicates that they provided \$830,000 in services. However, within service categories the Agency provided 80,000 (64%) less units of Targeted Case Management Services, 14,000 (65%) less units of Medication Support, and exceeded its contracted level of service for Crisis Intervention Services by 11,000 (51%) units. The shifts in services were performed without prior written authorization from DMH, as required.

Recommendation

33. PIC management obtain written authorization from DMH prior to deviating from contracted service levels.



PERSONAL INVOLVEMENT CENTER, Inc.

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October 23, 2006

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Auditor-Controller
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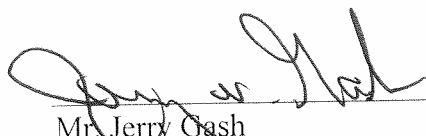
Dear Mr. McCauley,

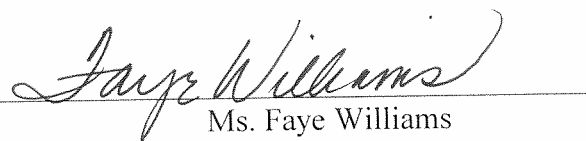
Personal Involvement Center, Inc. (PIC) is fully committed to providing quality and necessary child welfare and mental health services, while being fully accountable for compliance with the audit standards within the County contracts and current Countywide Contract Monitoring Review. In response to the October 10, 2006 Draft Report, Personal Involvement Center desires to be fully responsive to each finding and recommendation as outlined below.

PIC management takes these findings and recommendations very seriously and has put in place the necessary actions to reconcile the issues identified in this audit and to prevent further errors and omissions.

Thank you for the opportunity to respond to these findings and recommendations. We look forward to continuing to facilitate the ever-growing needs of this community with the support of our County and Government agencies.

Sincerely,


Mr. Jerry Oash
Chief Executive Officer


Ms. Faye Williams
Chairman of the Board

FINANCIAL VIABILITY

Recommendations

PIC management:

1. PIC management should submit a plan to the Department of Mental Health (DMH) and the Department of Child and Family Services (DCFS) to improve its financial condition that includes maintaining sufficient working capital to pay its bills.
2. PIC management develops a plan to pay its installment agreement with the Internal Revenue Service (IRS) using non-County funds.
3. Maintain accurate account records.

Agency response:

According to the 2004-2005 Financial Statement Audit Draft, dated August 4, 2006, although the cash balance was significantly less than the prior audit year, PIC did not have a negative cash balance. The negative cash balance revealed during this review was largely due to the fact that the Agency's bank accounts were not properly reconciled, therefore, cash was not properly stated. As of July 2006, all accounts have been reconciled and provided to the Auditor-Controller Office. PIC has contracted with an outside consultant, which will ensure timely reconciliation of all bank accounts in the future.

PIC's CPA firm has completed the 2004-2005 financial statement audit. A copy of these statements was provided to the County on August 25, 2006. PIC has revised its policies and procedures to ensure the timeliness of future audited financial statements.

PIC has revised and made available a copy of the Fiscal Management Policies and Procedures manual. In addition to these procedures, PIC will continue to pursue various options, including bank lines of credit and various contracts and grants. PIC has recently received two additional sources of funding which will significantly increase the Agency's working capital.

As of June 30, 2006, the \$70,000 balance due to the IRS was paid in full.

PIC has also developed a plan to monitor income and expenses monthly to ensure proper allocation of all agency funds. Expense areas that have been identified and reduced include but are not limited to subcontractors and transportation.

COST ALLOCATION PLAN

Recommendations

PIC management:

4. Develop a detailed cost allocation plan.
5. Allocate costs to each program on a monthly basis in accordance with the detailed cost allocation plan.
6. Review FY 2004-05 and 2005-06 costs charged to all programs to ensure all costs were appropriately allocated to each program and resolve the billing discrepancies with the appropriate County Department.

Agency response:

PIC has revised the Cost Allocation Plan to ensure the most appropriate allocation of overhead and direct expenses across programs. Based on the revised plan, all expenditures, including staff salaries, health insurance premiums, and utility costs will be allocated to their respective programs as provided in the revised Cost Allocation Plan located in the Financial Management Policies and Procedures Manual section III(B).

PIC will review the appropriate allocation of expenses on a monthly basis and the overall Cost Allocation Plan will be reviewed annually and revised as necessary. Any identified billing discrepancies will be settled in a timely manner.

INTERNAL CONTROLS

Recommendations

PIC management:

7. Establish adequate separation of duties over the handling of cash.
8. Ensure that bank reconciliations are reviewed and approved by a manager that does not have cash handling responsibility.
9. Ensure that all voided checks are accounted for and recorded in the accounting records.
10. Ensure that expenditures are pre-approved by management.
11. Require that invoices or receipts be marked "Paid" to prevent duplicate payments.
12. Do not issue checks payable to cash.

13. Develop a policy regarding use of cellular phones.
14. Ensure timesheets are signed by the employee and approved in writing by supervisory personnel.

Agency response:

PIC has developed and implemented a Finance Policy that addresses each area identified in this section of the Audit. Training will be scheduled for all managers and supervisors to assure understanding between the Finance Office and all programs managers.

PIC has divided the disbursement duties among several employees to alleviate the potential for the misappropriation of funds by ensuring that no one employee has the authority to both incur expenses and to issue checks. With the exception of small expenditures in the amount of \$250 or less, the Agency will ensure that all expenditures are pre-approved by management. After the expenditure has been pre-approved by management, the order may be placed. Once the order is processed and payment has been requested, the Check Requisition form must be submitted and approved by management.

This Check Requisition System was established as one method of maintaining control over disbursements. A written authorization (check requisition) is prepared for each expenditure. The form contains the name of the vendor, the date and number of the check request, and all pertinent details of the invoice and other supporting documentation. The form also contains details of payment, and spaces for the signatures of approval, which are required before payment will be issued. Before payment will be approved, management must first verify the product amount on the invoice with the amount requested on the requisition. After the check has been issued, a member of the Finance team will verify that the receipt is equal to the amount disbursed per the requisition. Any difference will be analyzed and resolved between management and the requester.

PIC has a centralized Finance Department. This Department maintains all County proposals, contracts and approves those expenditures for personnel and direct expenses of the organization, across programs. In response to this Audit, PIC has developed a quality improvement plan to provide checks and balances and safeguard cash, expenditures and payroll. Responsibility for bank reconciliation will be separated from the Finance Office, utilizing other management and Quality Assurance (QA) staff. The QA checklist will include standard review of signatures, approvals, check accountability, recording, timesheets and appropriate charges in accordance with the approved CAP. PIC revised the Financial Management Policies and Procedures Manual to address the issues raised regarding cash, expenditures and payroll.

PIC has also purchased and currently uses a “paid” stamp for all paid invoices to avoid duplicated payments.

Certain assets, such as computers, are used across programs and PIC assigns computers based on need across all County programs. PIC will ensure that these assets are allocated appropriately according to the revised Cost Allocation Plan.

The practice of using checks made out to cash to support gasoline for the transportation services and emergency expenses for clients was revised and documented as part of the Finance policy. The new policy was designed not to delay or otherwise impede our services to DCFS and DMH clients.

The revised Cost Allocation Plan has provided the structure and foundation for assigning direct and indirect costs to the special program of the County. The issue of establishing petty cash funds for transportation costs has been corrected through pre-paid cards issued by Broadway Federal Bank. These cards are distributed strictly to the Maintenance Supervisor. The Maintenance Supervisor fuels the vans and remits the receipts to the Finance department. These receipts are vouched through the online banking system to ensure that all disbursements were properly recorded. The receipts are then stamped "paid" and filed. The balance on each card is \$500. PIC will also maintain a log, which will contain the following information; date, name of the driver, van, mileage before vehicle is re-fueled and the number of gallons fueled. The log will be reviewed monthly by the Finance Department for reasonableness to ensure gas cards are not being used for personal use.

All PIC cellular phones have been collected and redistributed to management staff conducting business and services on behalf of the County. The revised Human Resources Policy and Procedure Manual will contain specific direction regarding the use of the cell phones including proper documentation of personal versus business calls, reimbursement policy and when, where and how the phones are to be used.

The finding regarding timesheets was addressed through manager and supervisor training. The required review and criteria for sign-off was further developed in the Human Resources policy and procedures manual.

CASH

Recommendations

PIC management:

15. Ensure that bank reconciliations are completed properly and in a timely manner.
16. Ensure that all financial transactions are properly recorded in the Agency's accounting records.
17. Do not use specific program funds to fund activities in other programs.

Agency response:

A structural change has been implemented to minimize future errors. This change has been documented in the Finance policy and procedures and shared with the Auditor-Controller for further review and input. PIC has eliminated the number of open bank accounts. As of July 1, 2006, PIC currently has one General account and one Payroll account.

PIC has created a quality assurance process, as part of the new Finance Policy, to address identified weaknesses in the management of the general ledger, including reconciliation and posting errors. A system of outside review of the accounting records, on a monthly basis will better ensure that these recording errors, if any, are identified early and corrected. On July 17, 2006, the bank reconciliations were completed and submitted to the audit staff, along with a letter from the accounting firm affirming the reconciliations.

EXPENDITURES

Recommendations

PIC Management:

18. Maintain original invoices /receipts to support program expenditures
19. Repay the County \$36,836 for undocumented and disallowed expenses identified in our report.

Agency response:

The revised Cost Allocation Plan has addressed the issues related to the allocation of expenses to the appropriate program. PIC will ensure that all expenditures are properly documented and supported by invoices and receipts.

PIC does not agree with the repayment amount of \$36,836. PIC has researched the disallowed expenses and has provided supported documentation in the form of receipts, invoices and cleared checks. Although the program allocation may not have been easily identifiable, many of the expenditures noted did contain allowable County charges.

The overcharged lease amount was inadvertently recorded in the wrong accounting period. PIC has provided documentation from its CPA firm to support this fact. PIC will make the necessary journal entry to remove the \$4,000 from MHP.

PAYROLL AND EMPLOYEE BENEFITS

Recommendations

PIC management :

20. Ensure that payroll expenses are allocated to the appropriate program.
21. Ensure employees report on their timecards the total hours worked on each program.
22. Ensure timesheets are maintained for all employees.
23. Ensure that the County is billed only for insurance benefits provided to actual employees in accordance with program requirements.
24. Calculate the amount the County was incorrectly billed for health insurance benefits provided to the four terminated employees and repay the County.

Agency response:

The revised Cost Allocation Plan and Policies and Procedures Manual mentioned above, should resolve the issues involving the appropriate allocation of employee salaries and benefits. In addition, PIC has revised the Employee Timesheet to include allocation for each Agency program.

PIC will research the health insurance benefits billed for the employees selected for testing. Any overpayments identified will be remitted to the County in a timely manner. The Agency has also revised its Policy and Procedure manual to ensure that the County is not incorrectly billed for terminated employees.

BUILDING LEASE

Recommendations

PIC management:

25. PIC management work with the Auditor-Controller to determine whether the amount charged for leasing office space was appropriate for Fiscal Year 2005-06 and prior contract years.

Agency response:

Effective July 25, 2006, Ms. Faye Williams has replaced Reverend J. Benjamin Hardwick as the Chairman of the Board. Mr. Jerry Gash is currently serving as the Chief Executive Officer.

The Personal Involvement Center, Inc. will work with the Harrington Group to ensure compliance with the Office of Management and Budget circulars. PIC does not agree with the assertion concerning Pastor as CEO and his relationship to rent and lease payments and therefore does not agree that MHP or FPP were overcharged.

Based on the above recommendation and after reviewing the current rent agreements, the Chairman of the Board, Ms. Faye Williams, and the PIC Board of Directors unanimously voted that effective August 1, 2006, Family Preservation Network rent will decrease from the current rate of \$5,500 to \$4,000.

FIXED ASSETS

Recommendations

PIC management:

26. Maintain a listing of the Agency's fixed assets and equipment including description, unique identifier, assigned individual and the program where the asset is used.
27. Remove the 2002 Cadillac from the Agency's financial records and reimburse County for any depreciation that was billed to the County.

Agency response:

PIC management will dedicate resources to ensure that fixed assets and inventory ledgers are properly maintained. PIC will research the depreciation schedule and determine if any charges were billed to the County. Any necessary overpayment will be remitted to the County in a timely manner.

The 2002 Cadillac has been removed from the list of assets and Rev. Hardwick are personally making the insurance payments. The automobile was removed from PIC's general ledger. Praises of Zion purchased the automobile in question. No County program funds were used for this purchase nor were any payments made by PIC.

REVENUE

We are pleased that the auditor found PIC to be in compliance in this area.

BILLED SERVICES

Recommendations

PIC management:

28. Maintain sufficient documentation to support its compliance with contract requirements for the services billed to DMH.
29. Enhance controls to detect and correct billing errors.
30. Repay DMH \$1,130 for amount overpaid.
31. Ensure Annual Assessment Updates are completed.
32. Maintain a current Client Care Plan for each service billed and ensure that it includes the client and parent/guardian's signature(s).

Agency response:

PIC will ensure that sufficient documentation is maintained to comply with DMH contract requirements as well as implementing mechanisms to allow timely detection and correction of any billing errors. PIC will also complete Annual Assessment Updates and will maintain a current Client Care Plan for each service billed. PIC will verify the results provided regarding DMH billing and any identified overpayment will be settled in a timely manner.

CLIENT VERIFICATION

We are pleased that the auditor found PIC to be in compliance in this area.

STAFFING LEVELS

We are pleased that the auditor found PIC to be in compliance in this area.

STAFFING QUALIFICATIONS

We are pleased that the auditor found PIC to be in compliance in this area.

SERVICE LEVELS

Recommendations

PIC management:

33. PIC management obtain written authorization from DMH prior to deviating from contracted service levels.

Agency response:

PIC will contact DMH regarding any necessary contract adjustments.